

CITY OF MILFORD

**INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

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CITY OF MILFORD
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Donald Lamb	Mayor	January 1, 2014
Michael Anderson	Mayor Pro-Tem	January 1, 2014
Keith Feller	Council Member	January 1, 2014
Chris Hinshaw	Council Member	January 1, 2014
Rick Kilts	Council Member	January 1, 2016
Don Olsen	Council Member	January 1, 2016
Matthew Skaret	City Administrator/Treasurer	Indefinite
David Stein, Jr.	Attorney	Indefinite

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Milford, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles for the basis of accounting described in Note 1 require financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles for the basis of accounting described in Note 1, the assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component units would have been reported as \$15,183,063, \$4,730,495, \$10,452,568, \$3,932,121, and \$3,346,226, respectively.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2013, or the changes in cash basis financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements of the City's primary government for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information on pages 19 through 21, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the City of Milford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Milford's internal control over financial reporting and compliance.

Wintner, Starn & Co., LLP

November 22, 2013

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Program Receipts		
		Charges for	Operating	Capital
Disbursements		Service	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 638,859	\$ 32,917	\$130,728	
Public works	322,293	3,535	282,414	
Health and social services	6,400			
Culture and recreation	436,565	2,565	30,462	
Community and economic development	36,624	30,117		
General government	345,749			
Debt service	770,670		86,348	
Capital projects	540,873			
Total governmental activities	<u>3,098,033</u>	<u>69,134</u>	<u>529,952</u>	
Business type activities:				
Solid waste	268,783	292,625		
Sewer	110,217	257,338		
Storm water	<u>1,233</u>	<u>59,137</u>		
Total business type activities	<u>380,233</u>	<u>609,100</u>		
TOTAL	<u>\$3,478,266</u>	<u>\$678,234</u>	<u>\$529,952</u>	

GENERAL RECEIPTS AND TRANSFERS:

Property and other city taxes levied for:	
General purposes	
Local option sales tax	
Debt service	
Tax increment financing	
Unrestricted interest on investments	
Bond proceeds	
Discount on general obligation bonds issued	
Payment to refund bond escrow agent.....	
Miscellaneous	
Transfers	
Total general receipts and transfers	

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

CASH BASIS NET POSITION

Restricted, expendable:	
TIF supported projects	
Streets	
Capital projects	
Debt service	
Other purposes	
Unrestricted	

TOTAL CASH BASIS NET POSITION

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (475,214)		\$ (475,214)
(36,344)		(36,344)
(6,400)		(6,400)
(403,538)		(403,538)
(6,507)		(6,507)
(345,749)		(345,749)
(684,322)		(684,322)
(540,873)		(540,873)
<u>(2,498,947)</u>		<u>(2,498,947)</u>
	\$ 23,842	23,842
	147,121	147,121
	57,904	57,904
	<u>228,867</u>	<u>228,867</u>
<u>(2,498,947)</u>	<u>228,867</u>	<u>(2,270,080)</u>
1,210,202		1,210,202
556,430		556,430
164,809		164,809
464,601		464,601
10,893	334	11,227
3,310,000		3,310,000
(35,461)		(35,461)
(2,695,203)		(2,695,203)
71,576	5,899	77,475
115,110	(115,110)	
<u>3,172,957</u>	<u>(108,877)</u>	<u>3,064,080</u>
674,010	119,990	794,000
<u>3,216,774</u>	<u>98,155</u>	<u>3,314,929</u>
<u>\$3,890,784</u>	<u>\$218,145</u>	<u>\$4,108,929</u>
\$ 462,274		\$ 462,274
127,163		127,163
1,294,363		1,294,363
340,828		340,828
346,761		346,761
1,319,395	\$218,145	1,537,540
<u>\$3,890,784</u>	<u>\$218,145</u>	<u>\$4,108,929</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Special Revenue	
	General	TIF Supported Projects	Road Use
RECEIPTS:			
Property tax	\$ 962,481		
Tax increment financing		\$387,223	
Other city tax	556,430		
Licenses and permits	36,144		
Use of money and property	32,836	1,181	\$ 225
Intergovernmental	146,387		282,414
Charges for service	7,008		
Miscellaneous	72,680		
TOTAL RECEIPTS	<u>1,813,966</u>	<u>388,404</u>	<u>282,639</u>
DISBURSEMENTS:			
Operating:			
Public safety	638,859		
Public works	65,750		256,543
Health and social services	6,400		
Culture and recreation	436,565		
Community and economic development	36,624		
General government	345,749		
Debt service			
Capital projects	71,151	19,215	
TOTAL DISBURSEMENTS	<u>1,601,098</u>	<u>19,215</u>	<u>256,543</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>212,868</u>	<u>369,189</u>	<u>26,096</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds			
Discount on general obligation bond issued			
Payment to refund bond escrow agent			
Operating transfers in	444,467		30,000
Operating transfers out	(128,000)	(355,338)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>316,467</u>	<u>(355,338)</u>	<u>30,000</u>
CHANGE IN CASH BALANCES	529,335	13,851	56,096
CASH BALANCES BEGINNING OF YEAR, AS RESTATED	<u>790,060</u>	<u>448,423</u>	<u>71,067</u>
CASH BALANCES END OF YEAR	<u>\$1,319,395</u>	<u>\$462,274</u>	<u>\$127,163</u>
CASH BASIS FUND BALANCES:			
Restricted for:			
TIF supported projects		\$462,274	
Streets			\$127,163
Capital projects			
Debt service			
Other purposes			
Assigned for other purposes	\$ 37,160		
Unassigned	1,282,235		
TOTAL CASH BASIS FUND BALANCES	<u>\$1,319,395</u>	<u>\$462,274</u>	<u>\$127,163</u>

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
	\$ 164,809	\$247,721	\$1,375,011
		77,378	464,601
			556,430
			36,144
\$ 3,184	1,344	735	39,505
	86,348		515,149
			7,008
<u>10,627</u>	<u>442</u>		<u>83,749</u>
<u>13,811</u>	<u>252,943</u>	<u>325,834</u>	<u>3,077,597</u>
			638,859
			322,293
			6,400
			436,565
			36,624
			345,749
	770,670		770,670
<u>450,507</u>			<u>540,873</u>
<u>450,507</u>	<u>770,670</u>		<u>3,098,033</u>
<u>(436,696)</u>	<u>(517,727)</u>	<u>325,834</u>	<u>(20,436)</u>
552,742	2,757,258		3,310,000
(5,040)	(30,421)		(35,461)
	(2,695,203)		(2,695,203)
98,000	470,448		1,042,915
<u>(198,984)</u>		<u>(245,483)</u>	<u>(927,805)</u>
<u>446,718</u>	<u>502,082</u>	<u>(245,483)</u>	<u>694,446</u>
10,022	(15,645)	80,351	674,010
<u>1,284,341</u>	<u>356,473</u>	<u>266,410</u>	<u>3,216,774</u>
<u>\$1,294,363</u>	<u>\$ 340,828</u>	<u>\$346,761</u>	<u>\$3,890,784</u>
			\$462,274
			127,163
\$1,294,363			1,294,363
	\$ 340,828		340,828
		\$346,761	346,761
			37,160
			<u>1,282,235</u>
<u>\$1,294,363</u>	<u>\$340,828</u>	<u>\$346,761</u>	<u>\$3,890,784</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Solid Waste	Sewer	Nonmajor Storm Water	Total
OPERATING RECEIPTS:				
Charges for service	\$292,625	\$257,338	\$59,137	\$609,100
Use of money and property	254	52	28	334
Miscellaneous	5,864	35		5,899
TOTAL OPERATING RECEIPTS	<u>298,743</u>	<u>257,425</u>	<u>59,165</u>	<u>615,333</u>
OPERATING DISBURSEMENTS:				
Business type activities	268,783	110,217	1,233	380,233
TOTAL OPERATING DISBURSEMENTS	<u>268,783</u>	<u>110,217</u>	<u>1,233</u>	<u>380,233</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	29,960	147,208	57,932	235,100
OPERATING TRANSFERS OUT	<u> </u>	<u>(115,110)</u>	<u> </u>	<u>(115,110)</u>
CHANGE IN CASH BALANCES	29,960	32,098	57,932	119,990
CASH BALANCES BEGINNING OF YEAR	<u>87,845</u>	<u>10,310</u>	<u> </u>	<u>98,155</u>
CASH BALANCES END OF YEAR	<u>\$117,805</u>	<u>\$ 42,408</u>	<u>\$57,932</u>	<u>\$218,145</u>
CASH BASIS FUND BALANCES:				
Unrestricted	<u>\$117,805</u>	<u>\$ 42,408</u>	<u>\$57,932</u>	<u>\$218,145</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$117,805</u>	<u>\$ 42,408</u>	<u>\$57,932</u>	<u>\$218,145</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides solid waste, sewer, and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City's financial statements present the primary government of the City of Milford but do not include any component units for which it is financially accountable. A primary government is a legal entity or body politic and includes all funds, organizations, agencies, boards, commissions and authorities that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited separately and are presented on the accrual basis of accounting. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, Dickinson County Water Quality Commission, Dickinson County Joint E911 Service Board, and Dickinson County Sanitary Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in two categories:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The TIF Supported Projects Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Capital Projects Fund accounts for bond proceeds and other resources to be used for acquisition and construction of major capital facilities.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general obligation long-term debt.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major proprietary funds:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Storm Water Fund accounts for the operation and maintenance of the City's storm water system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Use of Estimates

The preparation of financial statements in conformity with an other comprehensive basis of accounting requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Management's Review

Management of the City has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. BONDS PAYABLE

Annual debt service requirements to maturity for general obligation bonds and a sewer revenue bond are as follows:

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

3. BONDS PAYABLE - Continued

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 385,000	\$ 209,945	\$ 50,000	\$ 54,531	\$ 435,000	\$ 264,476
2015	385,000	196,257	50,000	53,031	435,000	249,288
2016	595,000	185,894	55,000	51,532	650,000	237,426
2017	605,000	173,636	55,000	49,881	660,000	223,517
2018	635,000	160,019	55,000	48,231	690,000	208,250
2019-2023	2,675,000	562,697	250,000	207,963	2,925,000	770,660
2024-2028	1,560,000	279,130	295,000	130,350	1,855,000	409,480
2029-2031	705,000	34,438	450,000	29,000	1,155,000	63,438
Totals	<u>\$7,545,000</u>	<u>\$1,802,016</u>	<u>\$1,260,000</u>	<u>\$624,519</u>	<u>\$8,805,000</u>	<u>\$2,426,535</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Revenue Bond

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,350,000 in sewer revenue bonds issued in June 2011. Proceeds from the bonds provided financing for the construction of sewer line improvements and extensions. The bonds are payable from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 80% of net receipts. The total principal and interest remaining to be paid is \$1,884,519. For the current year, principal and interest paid and total customer net receipts were \$106,031 and \$147,208 respectively.

The resolution providing for the issuance of the revenue bonds includes the following provisions:

- a) The bonds will only be redeemed from the future earnings of the sewer utility and the bond holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue sinking fund account for the purpose of making the bond principal and interest payments when due. At June 30, 2013, a sinking fund balance of \$12,445 was maintained in the Debt Service Fund.
- c) A reserve fund shall be established and maintained at a minimum required amount. The balance in the reserve fund shall be used and is pledged for payment of the principal and interest if there are insufficient funds in the sinking fund. At June 30, 2013, a reserve fund balance of \$107,337 was maintained in the Debt Service Fund.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$67,224, \$61,567, and \$57,645, respectively, equal to the required contributions for each year.

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 14 active and no retired members in the plan. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Central States Southeast and Southwest. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. The cost of retiree coverage is offset by the retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$1,305 for both single and family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City made no contributions to the retiree benefit plan.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payments payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

6. COMPENSATED ABSENCES - Continued

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$27,100
Sick leave	51,200
Compensatory time	<u>5,900</u>
Total	<u>\$84,200</u>

The liability for compensated absences has been computed based on rates of pay in effect at June 30, 2013.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects	\$ 198,984
	Special Revenue: Employee Benefits	<u>245,483</u>
Total Transfers to General		<u>444,467</u>
Special Revenue: Road Use	General	<u>30,000</u>
Capital Projects	General	<u>98,000</u>
Debt Service	Special Revenue: TIF Supported	355,338
	Sewer	<u>115,110</u>
Total to Debt Service		<u>470,448</u>
Total		<u>\$1,042,915</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8. LOCAL GOVERNMENT RISK POOL

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

8. LOCAL GOVERNMENT RISK POOL - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$73,060.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of the membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

8. LOCAL GOVERNMENT RISK POOL - Continued

member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

10. COMMITMENTS

The City has entered into various developer agreements related to anticipated improvements in tax increment financing (TIF) districts. Developer agreement payments during the year ended June 30, 2013 totaling \$176,058 were made from the Debt Service Fund. Remaining commitments at June 30, 2013 related to the developer agreements were approximately \$2,900,000, consisting of approximately \$2,100,000 and \$800,000 for payments to developers and support of low to moderate income housing, respectively. Funding for the commitments will be obtained from TIF collections in the respective TIF districts.

11. ACCOUNTING CHANGE/RESTATEMENT

Fund type reclassifications were made during the year ended June 30, 2013 in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The effect of the fund type reclassifications is as follows:

		<u>Special Revenue</u>	
	<u>General</u>	<u>K9 Unit</u>	<u>Property Forfeiture</u>
Balances June 30, 2012, as previously reported	\$783,171	\$5,817	\$1,072
Change in fund type classification in accordance with GASB Statement No. 54	<u>6,889</u>	<u>(5,817)</u>	<u>(1,072)</u>
Balance July 1, 2012, as restated	<u>\$790,060</u>	<u>\$</u>	<u>\$</u>

OTHER INFORMATION

CITY OF MILFORD
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
OTHER INFORMATION (UNAUDITED)
YEAR ENDED JUNE 30, 2013

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$1,375,011		\$1,375,011
Tax increment financing	464,601		464,601
Other city tax	556,430		556,430
Licenses and permits	36,144		36,144
Use of money and property	39,505	\$ 334	39,839
Intergovernmental	515,149		515,149
Charges for service	7,008	609,100	616,108
Miscellaneous	83,749	5,899	89,648
TOTAL RECEIPTS	<u>3,077,597</u>	<u>615,333</u>	<u>3,692,930</u>
DISBURSEMENTS:			
Public safety	638,859		638,859
Public works	322,293		322,293
Health and social services	6,400		6,400
Culture and recreation	436,565		436,565
Community and economic development	36,624		36,624
General government	345,749		345,749
Debt service	770,670		770,670
Capital projects	540,873		540,873
Business type activities		380,233	380,233
TOTAL DISBURSEMENTS	<u>3,098,033</u>	<u>380,233</u>	<u>3,478,266</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(20,436)	235,100	214,664
OTHER FINANCING SOURCES (USES), NET	<u>694,446</u>	<u>(115,110)</u>	<u>579,336</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	674,010	119,990	794,000
BALANCES BEGINNING OF YEAR	<u>3,216,774</u>	<u>98,155</u>	<u>3,314,929</u>
BALANCES END OF YEAR	<u>\$3,890,784</u>	<u>\$218,145</u>	<u>\$4,108,929</u>

<u>Budgeted Amounts</u>		Final to Total
<u>Original</u>	<u>Final</u>	Variance Positive (Negative)
\$1,359,141	\$1,359,141	\$ 15,870
425,621	425,621	38,980
484,793	529,793	26,637
14,480	14,480	21,664
33,000	33,000	6,839
516,366	516,366	(1,217)
520,575	580,575	35,533
39,100	54,100	35,548
<u>3,393,076</u>	<u>3,513,076</u>	<u>179,854</u>
647,106	647,106	8,247
387,553	399,553	77,260
6,400	6,400	
474,813	474,813	38,248
291,594	301,594	264,970
348,445	348,445	2,696
586,753	812,651	41,981
903,048	1,256,175	715,302
434,957	434,957	54,724
<u>4,080,669</u>	<u>4,681,694</u>	<u>1,203,428</u>
(687,593)	(1,168,618)	1,383,282
		<u>579,336</u>
(687,593)	(1,168,618)	<u>\$1,962,618</u>
<u>3,384,339</u>	<u>3,384,339</u>	
<u>\$2,696,746</u>	<u>\$2,215,721</u>	

CITY OF MILFORD
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$601,025. The budget amendments are reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR YEAR ENDED JUNE 30, 2013

	Special Revenue		
	Employee	LMI	
	Benefits	Housing	Total
		Fund	
RECEIPTS:			
Property tax	\$247,721		\$247,721
Tax increment financing		\$ 77,378	77,378
Use of money and property		735	735
TOTAL RECEIPTS	<u>247,721</u>	<u>78,113</u>	<u>325,834</u>
OTHER FINANCING USES:			
Operating transfers out	<u>(245,483)</u>		<u>(245,483)</u>
CHANGE IN CASH BALANCES	2,238	78,113	80,351
CASH BALANCES BEGINNING OF YEAR	<u>8,870</u>	<u>257,540</u>	<u>266,410</u>
CASH BALANCES END OF YEAR	<u>\$ 11,108</u>	<u>\$335,653</u>	<u>\$346,761</u>
CASH BASIS FUND BALANCES:			
Restricted for other purposes	<u>\$ 11,108</u>	<u>\$335,653</u>	<u>\$346,761</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 11,108</u>	<u>\$335,653</u>	<u>\$346,761</u>

CITY OF MILFORD
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Fire station construction	June 1, 2009	2.50% - 4.75%	\$2,630,000
Street improvements	September 1, 2009	3.00% - 3.60%	1,700,000
Street improvements	May 1, 2010	3.00% - 4.00%	550,000
Storm sewer improvements	July 1, 2011	2.50% - 4.50%	325,000
Street improvements	August 1, 2012	0.70% - 2.40%	560,000
Refunding bonds	April 29, 2013	0.50% - 2.50%	2,750,000
Total			
Revenue bond:			
Sewer improvements	June 1, 2011	3.00% - 5.00%	1,350,000

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$2,330,000		\$100,000	\$2,230,000	\$ 95,462
1,395,000		155,000	1,240,000	44,222
505,000		45,000	460,000	16,737
315,000		10,000	305,000	11,800
	\$ 560,000		560,000	7,258
<u> </u>	<u>2,750,000</u>	<u> </u>	<u>2,750,000</u>	<u> </u>
<u>\$4,545,000</u>	<u>\$3,310,000</u>	<u>\$310,000</u>	<u>\$7,545,000</u>	<u>\$175,479</u>
 <u>\$1,310,000</u>	 <u> </u>	 <u>\$ 50,000</u>	 <u>\$1,260,000</u>	 <u>\$ 56,031</u>

CITY OF MILFORD
BOND MATURITIES
JUNE 30, 2013

Year Ending June 30,	General Obligation Bonds					
	Fire Station Construction Issued June 1, 2009		Street Improvements Issued September 1, 2009		Street Improvements Issued May 1, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	3.000%	\$ 105,000	3.00%	\$ 165,000	3.00%	\$ 50,000
2015	3.125	105,000	3.00	165,000	3.00	50,000
2016	3.250	110,000	3.00	170,000	3.00	55,000
2017	4.000	115,000	3.00	175,000	3.00	55,000
2018	4.000	120,000	3.25	185,000	3.25	60,000
2019	4.000	125,000	3.40	185,000	3.50	60,000
2020	4.000	125,000	3.60	195,000	3.75	65,000
2021					4.00	65,000
2022	4.000	275,000				
2023						
2024	4.150	295,000				
2025						
2026	4.500	320,000				
2027						
2028						
2029	4.750	535,000				
2030						
2031						
Total		<u>\$2,230,000</u>		<u>\$1,240,000</u>		<u>\$460,000</u>

Year Ending June 30,	Revenue Bonds Sewer Improvements Issued June 1, 2011		Total
	Interest Rates	Amount	
2014	3.000%	\$ 50,000	\$ 435,000
2015	3.000	50,000	435,000
2016	3.000	55,000	650,000
2017	3.000	55,000	660,000
2018	3.125	55,000	690,000
2019			800,000
2020			815,000
2021			300,000
2022	4.000	250,000	765,000
2023			245,000
2024			485,000
2025			195,000
2026	4.750	295,000	810,000
2027			195,000
2028			170,000
2029			655,000
2030			25,000
2031	5.000	<u>450,000</u>	<u>475,000</u>
Total		<u>\$1,260,000</u>	<u>\$8,805,000</u>

Schedule 3

General Obligation Bonds					
Storm Sewer Imprv		Street Improvements		Refunding Bonds	
Issued July 1, 2011		Issued August 1, 2012		Issued April 29, 2013	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2.50%	\$ 10,000	0.7%	\$ 55,000		
2.50	10,000	0.7	55,000		
2.50	15,000	1.1	55,000	0.50%	\$ 190,000
2.50	15,000	1.1	55,000	0.60	190,000
2.50	15,000	1.5	55,000	0.75	200,000
2.50	15,000	1.5	55,000	0.90	360,000
4.00	15,000	1.2	55,000	1.10	360,000
4.00	15,000	1.2	55,000	1.30	165,000
4.00	15,000	2.4	60,000	1.50	165,000
4.00	15,000	2.4	60,000	1.70	170,000
4.00	15,000			1.80	175,000
4.00	20,000			2.00	175,000
4.00	20,000			2.10	175,000
4.50	20,000			2.25	175,000
4.50	20,000			2.50	150,000
4.50	20,000			2.50	100,000
4.50	25,000				
4.50	25,000				
	<u>\$305,000</u>		<u>\$560,000</u>		<u>\$2,750,000</u>

CITY OF MILFORD
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
RECEIPTS:				
Property tax	\$1,375,011	\$1,538,810	\$1,491,754	\$1,360,705
Tax increment financing	464,601	281,110	225,493	
Other city tax	556,430	488,393	413,818	364,434
Licenses and permits	36,144	37,732	29,632	28,047
Use of money and property	39,505	42,158	43,611	23,202
Intergovernmental	515,149	513,218	824,678	470,113
Charges for service	7,008	13,233	5,598	4,969
Miscellaneous	<u>83,749</u>	<u>89,336</u>	<u>121,126</u>	<u>87,404</u>
TOTAL	<u>\$3,077,597</u>	<u>\$3,003,990</u>	<u>\$3,155,710</u>	<u>\$2,338,874</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 638,859	\$ 647,285	\$ 529,585	\$ 505,149
Public works	322,293	350,680	357,137	370,621
Health and social services	6,400	5,000	5,000	5,000
Culture and recreation	436,565	430,698	450,522	370,900
Community and economic development	36,624	36,052	30,614	26,426
General government	345,749	349,628	350,141	344,955
Debt service	770,670	585,673	424,579	369,947
Capital projects	<u>540,873</u>	<u>1,861,847</u>	<u>1,141,402</u>	<u>3,501,427</u>
TOTAL	<u>\$3,098,033</u>	<u>\$4,266,863</u>	<u>\$3,288,980</u>	<u>\$5,494,425</u>

Schedule 4

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$1,243,888	\$1,012,195	\$ 854,348	\$ 742,912	\$ 678,423	\$ 688,860
	6,506	439,576	587,556	513,594	467,036
403,048	397,976	452,801	375,046	381,954	336,188
34,684	40,039	35,620	54,283	23,379	40,417
26,436	82,748	122,466	79,898	34,081	20,278
338,920	288,998	297,225	290,803	308,921	309,545
5,114	4,831	41,218	75,373	16,355	74,897
<u>73,829</u>	<u>77,168</u>	<u>57,989</u>	<u>80,549</u>	<u>191,023</u>	<u>36,479</u>
<u>\$2,125,919</u>	<u>\$1,910,461</u>	<u>\$2,301,243</u>	<u>\$2,286,420</u>	<u>\$2,147,730</u>	<u>\$1,973,700</u>
\$1,280,653	\$ 451,851	\$ 439,550	\$ 354,577	\$ 439,934	\$ 570,181
338,493	265,510	405,658	407,159	327,265	373,108
1,000	1,000	2,000	2,100	3,511	1,000
464,420	360,011	315,669	286,487	233,151	247,327
29,458	29,218	38,422	71,418	62,476	75,296
303,251	285,685	296,173	317,285	271,992	289,622
107,879	98,788	134,562	159,643	271,401	217,665
<u>538,593</u>	<u>524,647</u>	<u>730,810</u>	<u>45,126</u>	<u>122,584</u>	<u>117,238</u>
<u>\$3,063,747</u>	<u>\$2,016,710</u>	<u>\$2,362,844</u>	<u>\$1,643,795</u>	<u>\$1,732,314</u>	<u>\$1,891,437</u>

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INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Milford, Iowa as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated November 22, 2013. Our report expressed unqualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Milford's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Milford's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Milford's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility a material misstatement of City of Milford's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the primary government of the City of Milford are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the primary government of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Milford's Responses to Findings

City of Milford's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Milford responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Milford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wardner, Starn & Co., LLP

November 22, 2013

CITY OF MILFORD
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

I-A-13 Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting

- II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- II-B-13 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-13 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-13 Revenue Bond - No instances of noncompliance with the revenue bond and note resolutions were noted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-I-13 Annual Urban Renewal Report - The FY2012 annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the following exceptions were noted:

- The City's beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the FY2012 Levy Authority Summary do not agree with the City's general ledger.
- Several variances were noted between the activity for the FY2012 Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary and the City's general ledger.
- The amount reported by the City as TIF debt outstanding was overstated on the FY2012 Levy Authority Summary.

Recommendation - The City should ensure that the cash balances and debt amounts reported on the Levy Authority Summary agree with the City records.

Response - These items will be corrected on next year's report.

Conclusion - Response accepted.